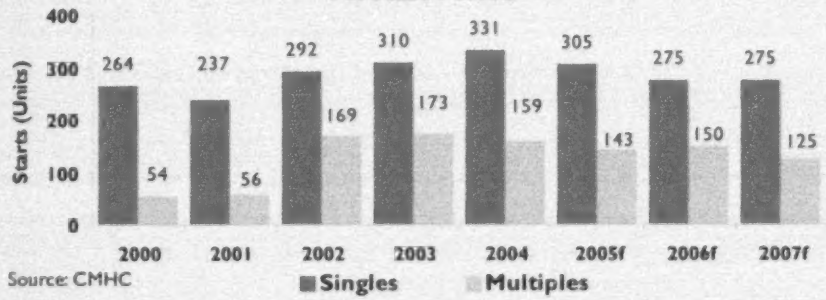
HOUSING MARKET OUTLOOK

Charlottetown - Date Released: Spring 2006

In-Migration Helps to Bolster Housing Market

The Charlottetown housing market is expected to remain strong in historical terms through the end of 2007, supported by in-migration and employment growth. The trend of positive net-migration has been one of the main factors helping to drive the impressive housing market conditions the Capital Region has experienced over the past five years. During this time, the province as a whole has received about 1,600 new residents. However, when the data is examined in greater detail, it shows that Queen's County has received over 1,700 people, while the other two counties have posted marginal decreases. The data also shows that Queen's county is attracting people in all age cohorts except the 18-24 grouping. This shows that the region is receiving people that are typically active in the housing market. As such, the inflow of people to the area has been one of the main factors leading to the growth in the city's housing market. Employment is another major factor influencing both migration trends and the local housing market. Positive employment opportunities during the past five years has enticed many from other parts of the province to move to the capital region and has helped to bolster strong consumer sentiment. Both of these factors have been instrumental in stimulating the local housing market. Employment in Charlottetown this year is expected to surpass the record level set last year, with more than 31,000 people employed. All of the employment growth through the first quarter of 2006 can be attributed to the addition of over 1,500 full-time jobs in the city

Both Single and Multiple Construction to Slow Over the Forecast Period



Source: CMHC

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as compared to the same period last year. Part-time employment on the other hand has posted a moderate decline this year, dropping 7.7 per cent from last year's level. These factors are a sign that diversification in the region continues, which should help to reinforce the housing market in coming years. Interest rates, another key aspect of the housing market, have remained low over the past few years. Although rates have been edging up, with further rate hikes anticipated over the forecast period, the overall increase is not expected to be sufficient to dissuade potential homebuyers.

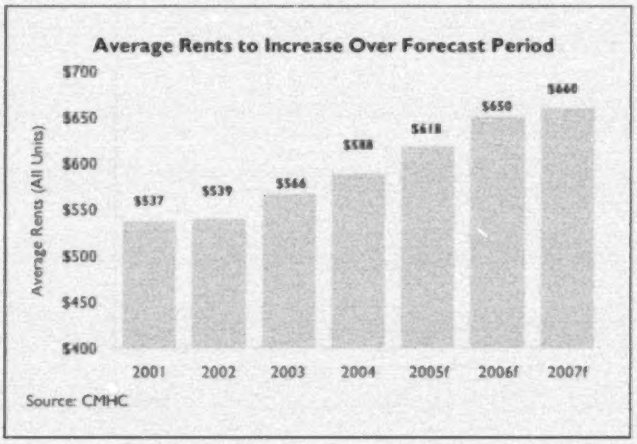
VACANCY RATE TO INCREASE IN 2006

The vacancy rate in the Charlottetown CA has been climbing steadily since dropping to a low of 1.8 per cent in 2001. In October 2005 CMHC's Rental Market Survey recorded a vacancy rate of 4.4 per cent, an increase of 1.3 per cent, and the highest on record since 1998. Strong demand and low interest rates lead to a surge in multiple starts during the 2002-2004 period. However, the low mortgage rates that were attractive to developers also benefited potential homebuyers and many households made the switch from rental to homeownership. These two items combined lead to the increased vacancy rate that the Capital region has been experiencing over the past four years. Due to the higher vacancy and mortgage rates multiple starts are expected to return to more typical levels in both 2006 and 2007. Expect multiple starts to drop to approximately 150 units in 2006, with an additional drop to 125 units in 2007. Furthermore, the rising costs of homeownership will reduce the number of households making the switch from rental to homeownership, and as a result expect the vacancy rates to start declining in 2007.

Also contributing to a reduced vacancy rate in 2006 will be the nature of the multiple units being constructed in the Charlottetown area. In recent years, multiple starts have shifted away from the traditional apartment style unit, with a sizeable increase in the number of row and semi-detached units. Moreover, the tenure of multiple units has also changed significantly. From 1995-2000, the number of multiple units that were built for homeownership was insignificant. After gradual increases starting in 2001, the number of multiples built for homeownership in 2005 was almost double the number of rental units. For 2006, this trend is expected to continue with sustained strength in demand for semi-detached units for homeownership. Overall, expect a moderate decline in multiple starts in 2006, mostly due to a decline in apartment style units. Consequently, the vacancy rate in Charlottetown is expected to rise slightly in 2006 to 4.5 per cent, before dropping to 4.6 per cent in 2007.

AVERAGE RENTS TO INCREASE IN 2006

The average two-bedroom rent in Charlottetown increased from $611 in 2004 to $618 in 2005, an increase of 1.1 per cent, which was below the 2.0 per cent increase allowed by IRAC last year. This was not unexpected as landlords are facing increased competition from new rental units and the homeownership market. As such many landlords chose not to increase rents in 2005 in an effort to keep existing tenants. However, due to the rising costs associated with operating a rental property the rent increase allowed for 2006 is more substantial at 7.5 and 3 per cent for heated and unheated units respectively. As a result expect average rents to increase at the sizable rate of 5 per cent in 2006.



MLS® SALES ACTIVITY TO REMAIN STABLE

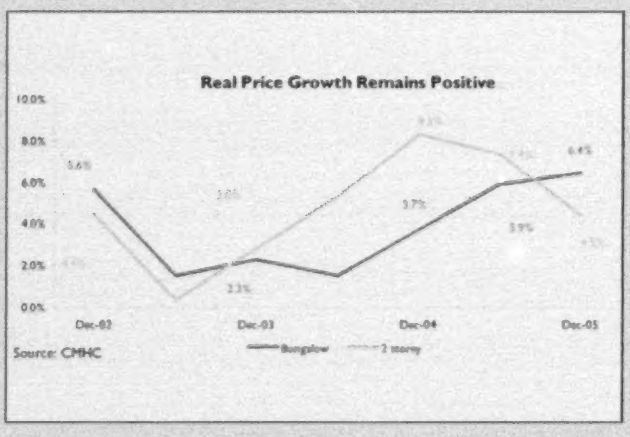
The number of residential MLS® transactions in the Charlottetown area has been in the range of 480 to 535 units per year since 1998, and no major change is expected over the forecast period. Sustained employment growth, increased new listings and the rising cost of new homes will keep MLS® sales at this level over the next two years. The price gap between new and existing homes continues to widen as the price growth for new homes continues to be fuelled by mounting land, labour and material costs. The eventual outcome of this is that potential home buyers will opt for an existing home due to the difference in price. New listings have also been on the rise due to current homeowners selling their properties to realize the profits from the recent appreciation of their homes, and with this move up to something larger or more elaborate. With more new listings, expect MLS® sale price growth to moderate with an increase of 2 per cent over both of the next two years.

COSTS AND TYPE OF HOMES TO PUSH NEW HOME PRICES UP IN 2006

It is expected that Charlottetown will continue to see larger, more elaborate and more expensive homes built over the forecast period, driving up the average new home price for the area. The expected rise in new home prices will also be a result of the increased costs associated with labour, land and materials, which is measured by the New House Price Index (NHPI). The NHPI in the Charlottetown area in 2006 and 2007 is forecast to be 3.5 per cent and 3 per cent respectively. This means that it will cost 3.5 per cent more to build the exact same house this year than in 2005. Expect the average new home price to reach $190,000 and $195,000 in 2006 and 2007 respectively.

CMHC'S SINGLE FAMILY HOME BENCHMARK APPRAISALS GAUGING REAL PRICE GROWTH IN CHARLOTTETOWN

When calculating the actual increase in house prices, using the average sales price from the MLS® system can be misleading. For example, if few more expensive homes are sold in a given period, the average sales price can be artificially raised. The value of all homes in the entire area may not have increased. In an effort to provide the most comprehensive housing data available, CMHC now conducts a Benchmark Appraisal on a semi-annual basis in both Charlottetown and Summerside. The goal of this exercise is to determine the actual increase in home prices over time.



The result of this benchmark, which is now in its fourth year, has shown that price growth is occurring in the Charlottetown area. While the average MLS® sales price of homes in the area is expected to increase by 2.9 per cent in 2005, the real appreciation of homes between December 2005 and December 2005 was slightly more at 4.5 per cent and 6.4 per cent for a 2-storey and bungalow respectively.

FORECAST SUMMARY

Greater Charlottetown Area

	2002	2003	2004	2005	2006*	2007*	% chg
NEW HOME MARKET							
Starts							
Total	461	483	490	448	425	400	-5.1%
Single-family	292	310	331	305	275	275	-9.8%
Multiple/Rental	169	173	159	143	150	125	4.9%
Average New House Price	$180,973	$185,996	$179,488	$188,741	$190,000	$195,000	0.7%
Complete and Unoccupied (Dec)	8	19	14	12	14	10	
RESALE MARKET							
MLS® Sales	551	506	521	486	475	500	-2.3%
Average Sales Price	$112,986	$131,013	$139,988	$144,036	$147,000	$150,000	2.1%
RENTAL MARKET							
Vacancy Rate (October)	2.1%	3.4%	4.1%	4.4%	4.5%	4.0%	
Average Rents (All units)	$539	$566	$588	$618	$650	$660	
Rental Rate (annual % change)		5.01%	3.89%	5.10%	5.18%	1.54%	
ECONOMIC OVERVIEW							
Mortgage Rate (3 yr. term)	6.28%	5.82%	5.65%	5.59%	6.22%	6.31%	
Mortgage Rate (5 yr. term)	7.02%	6.39%	6.23%	5.99%	6.61%	6.78%	

* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

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